

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  NATURAL GAS SERVICE—CURRENT BILLING ISSUES	DOCKET NO. NOI-01-1
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**ORDER ADDRESSING RESPONSES AND CLOSING DOCKET**

(Issued August 15, 2001)

**PROCEDURAL BACKGROUND**

On March 22, 2001, the Utilities Board (Board) issued an order establishing Docket No. NOI-01-1 as an emergency inquiry concerning the compliance of regulated utilities with the provisions of 199 IAC 19.4(10). The inquiry was opened because this past winter customers of Iowa's natural gas utilities experienced unusually high natural gas commodity prices and a November-December period that was unusually cold. This combination of events sent utility purchased gas costs, utility bills, and utility revenues to record highs. These events have affected all natural gas customers, some of whom do not have the financial resources to manage the resulting increase in household expenses. As a result, some customers have been unable to pay their natural gas utility bills in full.

The Board was also concerned whether utilities were making an extra effort to communicate with customers and to work with customers to develop payment arrangements that would allow the customer to maintain service. In order to evaluate

the rules, the Board order asked the utilities to respond to 11 questions. A workshop was also scheduled to obtain additional information and input from agencies and individuals that help customers with high gas bills.

Based upon a review of the comments filed and the statements made at the workshop, it appeared that several, if not most, utilities were not following the reasonableness standard as required by 199 IAC 19.4(10)"b." It was also evident that many of the utilities were using the 12-month minimum requirement of 199 IAC 19.4(10)"c" as a maximum limit for payment agreements rather than a minimum.

The Board, in an order issued April 12, 2001, directed all utilities to comply with the letter and intent of 199 IAC 19.4(10)"b" and "c" and to file in this docket a copy of written instructions that they would provide to their customer service representatives explaining the requirements of the two provisions and explaining that customers are to be informed of the provisions. The filing was to be made by May 1, 2001. The Board also required utilities to file with the Board on May 1 and June 1, 2001, a document showing the total number of customers who are in arrears and the number of first-time payment agreements entered into by the utility since January 1, 2001. The filing was to indicate how many of those payment agreements were for less than 12 months, how many were for 12 to 18 months, and how many were for 19 to 24 months.

In the April 12, 2001, order the Board also directed the inquiry manager to obtain additional information from the utilities concerning budget billing. Finally, the

Board stated that it would be in contact with the individual utilities concerning the commitments they made in this docket. The Board stated that it would hold this docket open to obtain the information directed to be filed in the March 22, 2001, order, the May 1 and June 1 filings, and to address any failure of a utility to meet its commitments.

### **INFORMATION PROVIDED**

Developing a complete picture of total customer arrears and how utilities handled payment agreements, budget billing, and customer education was difficult because of the large number of natural gas utilities and the varying methods of record keeping. Also, in some limited instances, utilities were unable to provide all the information requested. The data collected by the Board though does provide a perspective on the scope of this past winter's problems.

According to the Department of Human Rights (DHR), Bureau of Energy Assistance, 84,000 households applied for energy assistance money during the 2000-2001 heating season. This is an increase of 22,000 households from the previous year. In all, 79,000 households received payments averaging \$565 each. DHR indicated that it was able to get funding for all but 2,000 eligible households and was working to obtain additional supplemental federal funding for those households.

The five rate-regulated utilities, IES Utilities Inc. (IES), Interstate Power Company (Interstate), MidAmerican Energy Company (MidAmerican), Peoples Natural Gas Company, Division of UtiliCorp United Inc. (Peoples), and United Cities Gas Company, a division of Atmos Energy Corporation (United Cities), indicated that

202,025 customers were in arrears by the end of March 2001, which is 40 percent more than in March 2000. Of the March 2001 customers in arrears, 16,931 customers (this does not include customers of Peoples) were reported eligible for the Low Income Heating Assistance Program (LIHEAP), which is 26 percent more than in March 2000.

For the utilities responding, total customer arrears were \$43 million in March 2001, a little lower than the revised \$46 million figure reported for February 2001, but 57 percent higher than in March 2000. LIHEAP customer arrears are 89 percent higher than in March 2000.

The information provided showed that budget billing balances were also substantially higher than in the year 2000. Reported outstanding balances as of April 1, 2001, totaled nearly \$129 million, compared to \$28 million a year earlier. Part of the increase may be due to more customers electing budget billing in the face of rising gas prices.

Utility responses regarding payment agreements are noteworthy in that 20,348 (more than 78 percent) of the 25,919 first-time payment agreements since January 1, 2001, are for periods less than 12 months. Paragraph 199 IAC 19.4(10)"c" requires utilities to offer reasonable payment agreements over at least a minimum of 12 months.

This information indicated that most, if not all, of the utilities were not fully complying with the paragraph requiring a reasonable payment agreement be offered to customers the first time they inquire about a payment agreement and are in need

of such an agreement. Some utilities indicated a payment agreement up to 12 months was their standard offer. Some utilities stated their practice is to simply ask the customer what they could pay and go from there. In no case was there evidence that any serious consideration of individual financial circumstances was being taken into account. The rules clearly require a minimum of 12 months and consideration be given to the financial circumstances of the customers including income and any extraordinary financial circumstances.

Many of the utilities contended that extending payment agreements beyond 12 months would leave the customer still owing for last winter when they begin paying for the next winter's bills. The responses also show that information about payment agreement options is not readily available to customers. The Consumer Advocate Division of the Department of Justice (Consumer Advocate) suggested customers should be given all of their specific options at the time they get the 12-day disconnect notice. The suggestion was not endorsed by the utilities. Consumer Advocate's suggestion could be very difficult to do in the time allotted because of the many variables and would seem to preclude consideration of any individual circumstances as required by the rules.

## **BOARD DISCUSSION**

As part of the workshop and responses, the utilities were asked to make suggestions for any rules changes they thought might be helpful for working through these large bills and customer payment difficulties for the past winter. The utilities answer was the rules are fine the way they are or, as one utility stated, "the current

budget billing and payment agreement rules contain sufficient flexibility ... to provide appropriate payment options to its customers.” The information provided in the responses shows that the utilities in many instances used the flexibility in the payment agreement rules and the budget billing rules to not comply with the

payment. A few of the smaller municipal utilities take the 12-month history, divide it by 11 and then multiply by 12 to get the new payment. Taxes are then added to the new payment. This approach has the effect of a slight increase each year based on nothing more than math. There is no indication though that the other utilities made any adjustment to level payments even though higher winter heating bills were predicted for the winter of 2000-2001 due to higher gas prices.

All gas utilities should develop a new budget billing calculation routine that will be in compliance with the existing rules. The Board encourages utilities to review their budget billing estimation methods and consider approaches for lessening the cumulative impact of price increases. These approaches could include using forward-looking estimates based on known and measurable price information, adjusting the estimates more often than annually if gas price changes exceed reasonable tolerance limits, and posting all credits and overpayments directly to the account balance and not the monthly payment.

The information obtained in this docket indicates that some changes should be proposed to the Board's rules. The Board has reviewed the rights and remedies standard notice form in 199 IAC 19.4(15) and from that review the Board has determined that the rights and remedies standard form should be modified. The Board will initiate a separate rule making docket that proposes those modifications and makes corresponding modifications to 199 IAC 19.4(10). Since the rights and remedies standard form also is found in Chapter 20 for electric customers, the same modifications will be proposed in 199 IAC 20.4(15). The modifications to the rights

and remedies standard form should improve the information available to the customers at the time of possible disconnection.

The Board is considering commencing a rule making that requires utilities to post payments and credits to account balances rather than current bills. An example of existing practices from MidAmerican is illustrative. For one customer the MidAmerican Energy Summer Saver 2000 Cycling Season Incentive was credited against the monthly payment instead of applying it against the outstanding balance of the customer. In February 2001 a similar amount of money from the electric revenue sharing was again posted to the monthly payment instead of to the account balance. These two bill credits could have lowered the account balance and possibly lowered the revised monthly payment. Instead, for two months the customer was asked to pay less than the normal budget payment even though there was an outstanding account balance.

Similar circumstances happen when low-income home energy assistance customers receive their annual assistance payment. It is typically posted against their payment rather than applied as a credit to the account balance against their coming winter energy usage. If the payment is equal to or greater than the monthly payment, the customer gets a zero amount due for the next month and no payment is required. Given the payment challenges of many customers receiving LIHEAP assistance, it sends the wrong signal to give them a reduced payment or no monthly payment going into the heating season. One side issue for LIHEAP payments is a

federal requirement that these payments must apply to current heating season charges and not older amounts due. This issue is being reviewed.

The Board is also considering commencing a rule making concerning second payment agreements. Under current rules utilities have the option of entering into a second payment agreement if the customer defaults on the initial agreement. The current rules provide no guidance or criteria for these second agreements and the Board is considering whether such guidance or criteria are needed.

#### **ORDERING CLAUSE**

##### **IT IS THEREFORE ORDERED:**

The emergency inquiry identified as Docket No. NOI-01-1 has been completed and is closed.

#### **UTILITIES BOARD**

/s/ Allan T. Thoms

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper  
Acting Executive Secretary

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Dated at Des Moines, Iowa, this 15<sup>th</sup> day of August, 2001.